

**REPORT OF THE AUDIT OF THE  
BATH COUNTY  
SHERIFF**

**For the Period  
November 7, 2007 Through December 31, 2007**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE BATH COUNTY SHERIFF**

**For the Period  
November 7, 2007 Through December 31, 2007**

The Auditor of Public Accounts has completed the Bath County Sheriff's audit for the period November 7, 2007 through December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$7,722 from the prior year, resulting in excess fees of \$28,239 for the period November 7, 2007 through December 31, 2007. Revenues decreased by \$222,876 from the prior year and expenditures decreased by \$230,598. However, the reason for these decreases is that the prior year audit was for a whole year, and this audit is only for the period November 7, 2007 through December 31, 2007.

#### **Report Comments:**

- The Sheriff's Office Has Internal Control Deficiencies
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

#### **Deposits:**

The Sheriff's deposits as of December 31, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$529,575



## CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT.....	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	9
COMMENTS AND RECOMMENDATIONS .....	13





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carolyn Belcher, Bath County Judge/Executive  
The Honorable John Snedegar, Bath County Sheriff  
Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Bath County, Kentucky, for the period November 7, 2007 through December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the period November 7, 2007 through December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 23, 2008 on our consideration of the Bath County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Carolyn Belcher, Bath County Judge/Executive  
The Honorable John Snedegar, Bath County Sheriff  
Members of the Bath County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Has Internal Control Deficiencies
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Bath County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

July 23, 2008



BATH COUNTY  
JOHN SNEDEGAR, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For the Period November 7, 2007 Through December 31, 2007

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	1,801	
State Fees For Services			7,245
Fiscal Court			11,781
County Clerk - Delinquent Taxes			910
Commission On Taxes Collected			33,200
Fees Collected For Services:			
Auto Inspections	\$	215	
Accident and Police Reports		36	
Serving Papers		6,110	
Carrying Concealed Deadly Weapon Permits		500	6,861
Other:			
Miscellaneous		1,612	
Interest Earned		27	1,639
Total Revenues			63,437

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-		
Deputies' Salaries	4,717	
Other Salaries	2,123	
Contracted Services-		
Advertising	31	
Vehicle Maintenance and Repairs	2,935	

The accompanying notes are an integral part of this financial statement.

## Operating Expenditures and Capital Outlay: (Continued)

Materials and Supplies-			
Office Materials and Supplies	\$	49	
Uniforms		5,433	
Auto Expense-			
Gasoline		3,086	
Other Charges-			
Dues		365	
Telephone		648	
Postage		151	
Bond		1,554	
Constables For Serving Papers		1,080	
Miscellaneous		<u>1,081</u>	\$ 23,253
Capital Outlay-			
Office Equipment		124	
Vehicles		<u>2,000</u>	<u>2,124</u>
Total Expenditures			<u>25,377</u>
Net Revenues			38,060
Less: Statutory Maximum			<u>9,821</u>
Excess Fees			28,239
Payments to Fiscal Court - March 13, 2008		25,596	
July 23, 2008		<u>2,643</u>	<u>28,239</u>
Balance Due Fiscal Court at Completion of Audit			\$ 0

The accompanying notes are an integral part of this financial statement.

BATH COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for the period November 7, 2007 thru December 31, 2007 services
- Reimbursements for the period November 7, 2007 thru December 31, 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in for the period November 7, 2007 thru December 31, 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BATH COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2007  
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Bath County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Bath County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On December 31, 2007, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured      \$529,575

Note 4. Sheriff's Office Vacancy

The former Sheriff (Randall Armitage) resigned on October 2, 2007 and the new Sheriff (John Snedegar) was not appointed until November 7, 2007. There was no interim Sheriff between the above dates, leaving the Sheriff's office vacant from October 3, 2007 through November 6, 2007.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carolyn Belcher, Bath County Judge/Executive  
The Honorable John Snedegar, Bath County Sheriff  
Members of the Bath County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Bath County Sheriff for the period November 7, 2007 through December 31, 2007, and have issued our report thereon dated July 23, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bath County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Has Internal Control Deficiencies



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bath County Sheriff's financial statement for the period November 7, 2007 through December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

The Bath County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Bath County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

July 23, 2008



## COMMENTS AND RECOMMENDATIONS



BATH COUNTY  
JOHN SNEDEGAR, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For the Period November 7, 2007 Through December 31, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Has Internal Control Deficiencies

The Sheriff's internal control structure has deficiencies in cash receipts, expenditures, and in bank reconciliations. These deficiencies occur when someone has custody over assets and the responsibility of recording financial transactions.

A deficiency in the internal controls over cash receipts occurs because the bookkeeper collects, deposits, and records all cash receipts. The Sheriff could strengthen controls over cash receipts by reviewing the deposit, and comparing it to the daily checkout sheet and receipts ledger. This procedure needs to be documented by the Sheriff initialing the checkout sheet, receipts ledger, or deposit slip. It was also noted that checks are not being endorsed immediately upon receipt from customers.

A deficiency in the internal controls over expenditures occurs because the bookkeeper prepares checks and is also involved in purchasing and receiving, as well as posts to the disbursements ledger. To strengthen controls over expenditures, the Sheriff could review and initial invoices before he signs checks to document his approval prior to mailing. It was also noted that invoices should be properly cancelled by stamping them paid as a check is issued.

It was noted that proper bank reconciliations are not being completed. Bank reconciliations should be completed at the end of each month. A good internal control would be for the Sheriff to review the bank reconciliation prepared by an employee having no access to cash, and document his review by initialing the bank reconciliation.

In our judgment, these control deficiencies could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff improve internal controls within his office.

*Sheriff's Response:*

*At this time we are experiencing a lack of funds due to a severe budget cut. Initially all measures were taken to delegate and segregate job duties. Due to the severe budget cut, the Sheriff was forced to minimize employees. The new budget did not allow funds to hire additional employees. Therefore, we have downsized to a bare minimum.*

BATH COUNTY  
JOHN SNEDEGAR, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For the Period November 7, 2007 Through December 31, 2007  
(Continued)

STATE LAWS AND REGULATIONS:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On December 31, 2007, \$529,575 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response:*

*The Sheriff and his administration was not notified by Citizens Bank or any other public official that this was not automatically transferred over from the previous administration. However, upon being informed of such requirements proper procedures were established in June 2008. This will no longer be a problem for future use.*

